

# REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GAMAGARA MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Gamagara Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Gamagara Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the

requirements of the MFMA and DoRA.

#### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### **Unauthorised expenditure**

9. The municipality incurred unauthorised expenditure of R647 931 due to overspending on municipal votes. This was disclosed in note 38.1 to the financial statements.

#### **Irregular expenditure**

10. Irregular expenditure of R6 058 360 was incurred, as disclosed in note 38.3 to the financial statements, due to the municipality acquiring goods and services in contravention of the Supply Chain Management (SCM) Regulations.

#### **Significant uncertainties**

11. With reference to note 44 to the financial statements, the municipality did not have a permit for two landfill sites in Deben and Olifantshoek. In terms of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008), penalties amounting to R10 million per landfill site can be imposed.

#### **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### **Material inconsistencies in other information included in the annual report**

13. As the 2010-11 annual report had not been received at the date of this report, a conclusion could not be drawn on the consistency between the financial statements and audit report with other information included in the annual report.

#### **Unaudited supplementary schedules**

14. The supplementary information set out in annexures A to E does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

#### **Predetermined objectives**

15. I was unable to conduct the audit of performance against predetermined objectives, as the municipality did not submit its annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), section 121(3)(c) of the MFMA and part C of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*.

#### **Usefulness of information**

The following criteria were used to assess usefulness:

- **Measurability:** Indicators are well defined and verifiable, and targets are specific, measurable and time bound.

### **Planned and reported targets not specific**

16. For all programmes, 47% of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance.

### **Planned and reported targets not measurable**

17. For all programmes, 21% of the planned and reported targets were not:

- measurable in identifying the required performance.

### **Planned and reported targets not well defined**

18. For all programmes, 28% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

### **Planned and reported targets not verifiable**

19. For the selected programmes, valid performance management processes and systems that produce actual performance against the planned measures did not exist for 30% of the measures.

### **Compliance with laws and regulations**

#### **Annual financial statements, performance report and annual report**

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in employee costs, unauthorised expenditure, procurement and contract management, long-term liabilities and movable assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
21. The performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

#### **Budgets**

22. The municipality incurred expenditure that was not budgeted for or was in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
23. The mayor did not submit all quarterly reports on the implementation of the budget and the financial state of affairs of the municipality to the council within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

#### **Audit committee**

24. The audit committee did not function as required by section 166 of the MFMA, in that:
- the audit committee did not advise the council, the accounting officer and the management staff of the municipality on matters relating to internal financial control and internal audits, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation
  - the audit committee did not review the annual financial statements
  - the audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report

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  - the audit committee did not meet at least four times a year.
25. The audit committee also did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
26. The audit committee did not advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a) of the MFMA.

#### **Internal audit**

27. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- the internal audit unit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
  - the internal audit unit did not report to the audit committee on the implementation of the internal audit plan
  - the internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management as well as loss control.
28. The internal audit unit also did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
29. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators, as required by Municipal Planning and Performance Management Regulation 14.

#### **Expenditure management**

30. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

#### **Human resource management**

31. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.

#### **Revenue management**

32. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the receipt of revenue, as required by section 64(2)(e) of the MFMA.

#### **Asset management**

33. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the assets of the municipality, as required by section 63(2)(a) of the MFMA.

34. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

#### **Strategic planning and performance management**

35. The municipal council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality, as required by section 25 of the MSA.

#### **INTERNAL CONTROL**

36. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

37. The leadership did not ensure that the SCM policy was in line with the SCM Regulations, which resulted in processes not preventing and detecting irregular expenditure and non-compliance.
38. Senior management did not respect and adhere to internal controls, which resulted in unauthorised, irregular as well as fruitless and wasteful expenditure being incurred and not detected by management.
39. The municipality did not have policies relating to IT security during the financial year.
40. The accounting officer did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities.

#### **Financial and performance management**

41. Management did not properly review the financial statements, which resulted in material amendments to the financial statements to ensure their fair presentation.
42. In the absence of appropriate GRAP training to the finance staff, management appointed external service providers to compile the financial statements.
43. The municipality did not review and monitor compliance with applicable laws and regulations. The municipality did not have a delegated employee with the necessary technical skills to address and monitor new legislative changes affecting the municipality.
44. In the absence of appropriate training on predetermined objectives to municipal staff, management appointed external service providers to compile an annual performance report. However, the contract with the consultants was only renewed after year-end, which resulted in the performance of the municipality against predetermined objectives not being monitored or reported on.
45. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

## Governance

### Internal audit

46. The municipality utilised the shared internal audit division within the John Taolo Gaetsewe District Municipality. The internal audit unit did not follow a risk-based approach in selecting components to be audited or a systematic method to select samples. Performance information was not audited during the 2010-11 financial year.

### Audit committee

47. The municipality utilised the shared audit committee within the John Taolo Gaetsewe District Municipality. The audit committee functioned throughout the year, but did not fulfil all its responsibilities. The audit committee did not review the financial statements of the various municipalities in the district before they were submitted to the external auditors. The audit committee also did not review the performance management systems and did not make recommendations to the councils in this regard.

*Auditor General*  
Kimberley

30 November 2011



AUDITOR - GENERAL  
SOUTH AFRICA

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